Western Wireless Intercarrier Compensation Reform Plan

David L. Sieradzki

Hogan & Hartson, LLP

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CTIA Principles for Intercarrier Compensation Reform

- Focus on benefits to consumers, <u>not</u> "revenue neutrality" guarantees for ILECs
- Encourage economic efficiency and promote competition
- Competitive and technological neutrality
- Carrier self-reliance: recover network costs from own end-users
- Targeted universal service support: no higher than necessary to ensure affordable rates
- Administrative feasibility and simplicity

Principle #1: Focus on Consumer Benefits, Not "Revenue Neutrality" for ILECs

- **Portability**: Non-portable funds would distort intermodal competition and deny rural consumers the full benefits of competitive choice.
- **Protect Consumers** by promoting full-fledged competition.
  - No revenue guarantees; ultimately, no revenue restrictions (retail rate deregulation) for carriers facing competition.
  - Truth in billing (no mischaracterizing SLCs as regulatory obligations).

Principle #2: Encourage Economic Efficiency and Promote Competition

- Do not perpetuate regulatory regimes, such as rate-of-return regulation, that give ILECs incentives to maximize support by incurring inefficient costs.
  – Instead, create a deregulated environment in which wireless and wireline carriers can compete on an even playing field.
- Eliminate uneconomic arbitrage.
  – Overhaul the current divergent array of rules that unfairly discriminate among various classes of service providers.
  – Instead, establish unified rules regarding intercarrier compensation and universal service.

Principle #3: Competitive and Technological Neutrality

- Do not confer competitive advantages on one category of carrier or service provider over another.
  - Eliminate existing rules that discriminate against wireless by denying them compensation that is available to ILECs.
    - Do not sanction ILEC tariffs that unlawfully impose one-sided charges on wireless carriers.
  - Intercarrier compensation rate levels and rate structures should be <u>unified</u>.
    - Compensation should not differ depending on jurisdiction (interstate vs. intrastate), distance (local vs. long-distance, intra- vs. inter-MTA), or status of provider (non-rural ILEC, rural ILEC, CLEC, CMRS, VOIP).
  - Universal service high-cost support mechanism should also be "<u>unified</u>."

Principle #4: Carrier Self-Reliance

- Each carrier should recover network costs from its own end-users.
  - Move to a unified "**bill-and-keep**" system for all forms of traffic that is "transported and terminated."
- In a competitive market, each carrier should have flexibility in how to recover costs.
  - Move toward granting retail pricing flexibility to ILECs that face competition,
  - provided that consumer safeguards are in place.
- Will facilitate full intermodal competition.

Principle #5: Targeted Universal Service Support

- USF should be no higher than necessary to ensure affordable end-user rates.
- Create a **unified** high-cost support mechanism that calculates support based on **forward-looking costs.**
  - USF should not be used to ensure "revenue neutrality" or provide guaranteed returns for ILECs.
  - Instead, target support to consumers in high-cost areas.
- All explicit USF must continue to be fully portable among all ETCs.
- Universal service should be funded in a competitively neutral manner with all communications providers contributing to support mechanisms.

Principle #6: Administrative Feasibility and Simplicity

- Rely primarily on carrier negotiation of interconnection agreements, rather than excessively detailed regulatory prescription.
- Pursuant to Sections 251 & 252, recognize state PUCs' critical role in arbitration process.

The Western Wireless Plan

- Legal & Procedural Framework
- Short-Run Clarifications
- Default Network Architecture Rules
- Intercarrier Compensation Rate Level Shifts
- ILEC Pricing Flexibility
- Universal Service Reform

The WW Plan: Legal & Procedural Framework

- All intercarrier compensation is potentially subject to interconnection agreements among carriers, pursuant to Section 251(b)(5).
  - Pricing rules in Section 252(d)(2) permit FCC and/or state commissions to require “bill-and-keep.”
  - Section 201 authorizes the FCC to prescribe rules to govern state PUCs in arbitrating such agreements. Section 332 provides an additional source of authority regarding interconnection with wireless carriers.
  - Carriers may negotiate alternative arrangements, subject to state PUC approval. All agreements must be filed and offered for others to “opt in” pursuant to Section 252(i).
- The FCC should adopt standards regarding network architecture default rules and interconnection rate levels.

The WW Plan: Short-Run Clarifications

- Reaffirm existing interconnection rules on exchange of traffic with wireless carriers:
  - Transport and termination rates (not access charges) apply to all intra-MTA traffic originating from and terminating to wireless carriers, notwithstanding any ILEC tariffs to the contrary.
  - Wireless carriers are entitled to “local” interconnection arrangements based on the rating points for their customers, regardless of how traffic is actually routed.

The WW Plan: Default Network Architecture Rules

- In general, each carrier will bear financial responsibility for delivering its originating traffic to another carrier's "edge" in a LATA.
  - In the alternative, at the option of the originating carrier, carriers may deliver traffic to a mutual meet-point at an ILEC access tandem.
- For interconnection between hierarchical ILECs and other carriers, the non-ILEC carrier will have the option of:
  - (1) the default "edge" rule, or
  - (2) have the ILEC carry traffic both ways between networks and recover 50% of current switched dedicated transport rate from other carrier.
- Hierarchical ILECs must offer "transit" service, with rates capped based on inflation.

The WW Plan: Intercarrier Compensation Rate Level Shifts

- Over a 4 year period, the maximum level of per-minute intercarrier compensation rates in interconnection agreements declines to zero (bill-and-keep) in roughly equal steps.
  - For the smallest rural ILECs (those with fewer than 30,000 lines in a state and fewer than 100,000 nationwide), these reductions would proceed on a slower time frame (e.g., six years instead of four).
- Reductions would be targeted as follows:
  - Beginning in Year 1, no non-access charge rate may exceed **[$0.0015]** per minute.
  - Subject to the preceding bullet point, rate reductions would be targeted so that the highest per-minute rates (typically intrastate access) come down first until they are at parity with interstate access rate levels.

The WW Plan: ILEC Retail Pricing Flexibility

- ILECs would be allowed to increase their subscriber line charges (“SLCs”) over the four-year transition period, as proposed by the ICF.
  - However, no difference between the SLC caps for rural and non-rural ILECs.
- ILECs must identify the SLC as part of the basic price of service, rather than as a regulatorily mandated “add-on” charge.
  - Consistent with the CTIA Consumer Code, on billing statements and marketing materials, carriers must separately identify carrier charges (amounts retained by carrier for services and features) from taxes, fees and other charges collected by the carrier and remitted to federal state or local governments.
- SLCs will be completely deregulated at the end of the four-year transition period for any ILEC that can prove to the FCC that it is subject to competition.
  - *I.e.*, at least one facilities-based carrier is available to **[XX]**% of customers in the area, and at least **[YY]**% of customers have chosen to take service from such competing facilities-based carrier(s).
  - If the ILEC is receiving high-cost funds, then the competing facilities-based carrier must also have ETC status and be receiving high-cost funds.

The WW Plan: Universal Service Reform (1)

- Replace all existing USF mechanisms with a unified high-cost universal service mechanism based on forward-looking costs of least-cost technology.
  - Would be fully portable to all designated ETCs operating in a geographic area.
  - Additional portable funds could be disbursed in states that have statewide average forward-looking costs significantly greater than the national average (like today’s High Cost Model-based support fund).
- At the end of a four-year transition period (six years for areas served by small rural ILECs), the overall size of the fund would be “right-sized.”
  - Could target fund to be no greater than the size of today’s high-cost support funds, and possibly smaller, as long as support is “sufficient.”
  - Individual carriers may receive more or less than in the past.

The WW Plan: Universal Service Reform (2)

- To ease the transition for rural ILECs and other ETCs in their service areas, the existing USF funds would be transitioned out, and the new funds would be transitioned in, in graduated "steps" over a four-year transition period.
  - This transition process would be extended to six years for the smallest rural ILECs (those with fewer than 30,000 lines in a state and fewer than 100,000 nationwide) and other ETCs in their service areas.
  - In addition, in extraordinary circumstances, if an incumbent or competitive ETC can prove to the FCC that it faces extreme hardships and additional support is needed to avoid increasing end-user rates to "unaffordable" levels, additional "safety net" support should be available to all ETCs in the specified geographic area for a limited period of time.

Differences Between WW Plan and Other Plans (1)

- Eliminate Distortions Faster / Reach Bill-and-Keep Sooner
  - The ICF plan takes 8 years to reach bill-and-keep; and the EPG and ARIC plans would go the wrong direction by very substantially *increasing* the intercarrier compensation paid by CMRS and other competitive carriers.
  - By contrast, the WW plan would reach bill-and-keep after a four-year transition period.
- Promote Broadband and VOIP Deployment More Effectively
  - By eliminating the distortions imposed by the existing hodge-podge of different intercarrier compensation systems more rapidly than other plans, the WW plan would more effectively stimulate deployment of new technologies, including broadband and VOIP, by all classes of carriers.

Differences Between WW Plan and Other Plans (2)

- Competitively Neutral / No Revenue Guarantees.
  - The ICF, EPG, and ARIC plans preserve rate-of-return based revenue guarantees for rural ILECs and attempt to achieve "revenue neutrality" for all ILECs (with new USF dollars targeted to replace lost access revenues).
    - The ICF plan fences off substantial amounts of money from competition, by establishing a substantial new fund for rural ILECs that is "non-portable" to wireless ETCs, and by preserving residual access revenues for rural ILECs that are unavailable to wireless competitors operating in the same areas.
    - The WW plan is pro-competition rather than favoring a particular industry segment – it places all carriers on an equal competitive footing by abandoning all efforts to provide revenue guarantees or revenue neutrality.

Differences Between WW Plan and Other Plans (3)

- Pro-Competition and Pro-Consumer
  - The WW plan is pro-competition rather than favoring a particular industry segment, and therefore will more effectively advance the interests of both rural and urban consumers.
  - Pro-Rural Consumer: The WW plan targets USF dollars to consumers in the most rural, high-cost areas.
  - By contrast, the ICF, EPG, and ARIC plans continue to target USF dollars to the least efficient ILECs, regardless of how costly their areas really are to serve and regardless of the extent to which consumers in those areas need to be subsidized.

Differences Between WW Plan and Other Plans (4)

- Greater State PUC Role
  - The ICF plan largely displaces state PUCs by providing extraordinarily detailed prescriptions regarding rate structures and rate levels.
  - The WW plan preserves more flexibility for carrier-to-carrier negotiations, and hews more closely to the division of authority between the FCC and states set forth in Sections 251 and 252 of the Act.

Differences Between WW Plan and Other Plans (5)

- More Deregulation / More Consumer Protection.
  - Unlike any of the other plans, the WW plan provides a path toward full retail deregulation of the ILECs (elimination of SLC caps), thus setting the stage for full and unfettered intermodal, facilities-based competition.
  - At the same time, the WW plan also is unique in ending the ILECs’ ability to take advantage of consumers by mischaracterizing SLCs as a regulatory mandate.

David L. Sieradzki
Hogan & Hartson LLP
555 – 13th St., NW
Washington, DC 20004
Tel: 202-637-6462
Mobile: 202-641-8847
DLSieradzki@hhlaw.com